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C O N F I D E N T I A L SECTION 01 OF 03 DUBAI 000227

SIPDIS

DEPARTMENT: NEA/ARP BAGWELL AND MASILKO

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SUBJECT: CODEL GUTIERREZ ENGAGES DUBAI ENTITIES ON SOVEREIGN WEALTH ISSUES

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CLASSIFIED BY: Paul Sutphin, Consul General, Consulate Dubai, UAE.

REASON: 1.4 (b), (d)

¶11. (U) Summary: UAE Government officials and senior business executives told visiting members of Codel Gutierrez May 28-29 that investments from Dubai-owned companies did not represent a threat to the national security of the United States. The UAE-based officials voiced their concerns that increasing restrictions on foreign financial investments, coupled with political controversy surrounding a number of foreign acquisitions, have resulted in the perception that overseas investments - particularly Arab investments - are less welcome in the US marketplace than elsewhere. End summary.

¶12. (U) Led by Rep. Luis Gutierrez (D-IL) and consisting of members from the House Financial Services Committee including Rep. Spencer Bachus (R-AL), Rep. Melvin Watt (D-NC), Rep. Michael Capuano (D-MA), Rep. Gwen Moore (D-WI), as well as members Rep. Tom Davis (R-VA), Rep. Jim Moran (D-VA), and Rep. Luis Fortuno (R-PR), the Codel visited Dubai on May 28-29 on a fact finding mission involving sovereign wealth funds (SWFs) and their implications for US national security. The Codel discussed the nature of private equity holdings in Dubai, as well as perceived impediments to investing in the United States, in meetings with HE Mohammed Al Gergawi, Minister of State for Cabinet Affairs, HE Reem Al Hashimy, Minister of State without portfolio, HE Dr. Anwar Gargash, Minister of State for Foreign Affairs, and senior executives from Dubai Group, Istithmar, Dubai International Capital, and DP World. The Codel was accompanied by the Consul General and Pol/Econ Officer (notetaker).

Dubai: Awash in Private Equity

¶13. (C) A primary concern of CODEL Gutierrez was the source and control of private equity funding in Dubai. According to Dubai Group (DG) CEO Thomas Volpe, the company started as a private investment function for Sheikh Mohammad bin Rashid (MbR), Vice President of the UAE and Ruler of Dubai. Historically, MbR's personal wealth has represented between 90-95 percent of DG's overall capital, but this figure has been decreasing. In 10 years, Volpe predicted, this allocation will be closer to 50 percent as the company transforms itself into an independent asset manager. Asked about the role that DG plays in the

decision-making of its various assets, Volpe responded that DG does not seek operations-oriented investments. Stressing the importance of selecting investments with quality existing management, "We bet on the jockey, not the horse," he stated. He added that DG's investments are typically and intentionally structured below a controlling share threshold. "Our sweet spot is between 15-40 percent," he said, "so we rarely have the ability to control or dominate the decision-making of a company."

¶4. (C/NF) Anand Krishnan, Chief Operating Officer of Dubai International Capital (DIC) explained that DIC receives excess capital from the Government of Dubai, but also relies on external sources such as bank debt and third-party equity. Sylvain Denis, Chief Executive Officer of DIC's Private Equity Division, noted that DIC shares a similar "hands-off" philosophy with regard to management or corporate operations. When asked whether DIC was an SWF, Denis replied that the company is a private equity firm. "We have a very transparent investment strategy," he added. "Even though we are not required to disclose certain corporate information, we voluntarily do so." (Note: DIC, like the Dubai Group, is part of Dubai Holdings, the Dubai parastatal that represents the personal assets of Mohammed bin Rashid. DIC says it is a "private company" that belongs to MbR, i.e. "the wealth of the sovereign, versus sovereign wealth" - a distinction that is lost on most USG visitors, and with good reason. End Note.)

¶5. (U) David Jackson, CEO of Istithmar (a subsidiary of Dubai World) explained to the CODEL that 100 percent of his investment capital is generated through the profits of various government business initiatives such as Dubai World's various holdings, including Nakheel property development. According to Jackson, Istithmar primarily - but not exclusively - invests in emerging markets. The principal concern, he added, is return on investment.

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¶6. (U) Michael Moore, Senior Commercial Vice President at DP World (DPW) explained that DPW is majority owned (80 percent) by the Government of Dubai, with the remaining 20 percent owned by 60,000 shareholders. Moore also denied that DPW was an SWF, explaining that the company, which is controlled by an independent, multi-national board of directors, releases quarterly statements surrounding the company's performance and investment goals.

Lingering Fallout from the DP World Controversy

¶7. (C) All parties expressed regret over the aborted DP World acquisition of P&O's terminal assets in the United States, as well as the political controversy that surrounded the deal. Minister for Cabinet Affairs Mohammed Gergawi stated that the UAE had "come a long way" from the days in which he attended a school with no electricity or running water. He predicted that economic, political, educational, and social developments in the UAE would eventually set the standard for other countries in the region. He also stressed the positive US-UAE relations and highlighted the major presence of the US Navy as one example of this bilateral cooperation. (Note: The Jebel Ali port facility receives the largest US Navy port calls outside of the US.) The DP World controversy, he noted, was a step in the wrong direction. Stressing Dubai's investments were all about business, he urged that Congress reevaluate its approach to foreign investment, particularly with regard to investment from "your friends". "We are in a fight against radicalism. Help us to help you," Gergawi implored.

18. (C) Minister of State without portfolio Reem Al Hashimy echoed Gergawi's comments by stating that people in the region unfortunately have an increasingly "sour taste of the West." She added that the UAE, through its numerous charitable initiatives, was striving to impart positive changes throughout the region. (Note: The Mohammed bin Rashid Foundation and Dubai Cares, headed by Al Hashimy, fund hundreds of millions of dollars worth of education, healthcare, and entrepreneurship projects throughout the Middle East and Muslim world). Noting that half of the Arab population is under the age of 25, she stated that the promotion of tolerance, peace, diversity, and other liberal ideals would become progressively more important (Al Hashimy herself is 31 years old). The regional shift away from the West could have long-term political and economic consequences for the United States. "Trends shift quickly," she warned. Similar concerns were expressed during meetings with UAE-based business leaders. Moore stated unequivocally, "The capital will go where it's wanted...You want us on your side." Jackson stressed the need to improve the process by which foreigners - especially students - travel to the United States. "We must win the PR battle," he said.

19. (C) In the same vein, all parties expressed a willingness to comply with the existing regulatory and security requirements. Jackson (a USC formerly with Lehman Brothers) noted that Istithmar wanted to invest in the US market, but that rules surrounding investments should apply to all people irrespective of nationality. Established rules and prohibitions on investment in certain cases of national security are legitimate forms of regulation, he conceded, but "second class citizenship" is bad for everyone. Asked about the Committee on Foreign Investment in the United States (CFIUS) process, Denis replied that DIC had voluntarily initiated the process during three separate acquisitions of US-owned companies. In at least one of the cases, the acquisition did not involve a national security nexus, according to him, but "the political climate required that we undergo CFIUS." The CFIUS procedure was not a problem, he stated, explaining that the company has a good understanding of the players and the process. He did note, however, that uncertainty in the length of the process - between 30-100 days, depending on the preliminary investigation - could conceivably present a problem during future acquisitions, as potential partners may be hesitant to enter into a deal with this uncertain variable.

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MFA MinState Gargash Offers His Advice, Thoughtfully

10.(C) Minister of State for Foreign Affairs (and Minister of State for Federal National Council Affairs) Dr. Anwar Gargash hosted the Codel at his Dubai home. Seizing the opportunity, he offered five points of political advice for "the new Administration" - clearly a presentation he had thought about for a long time and delivered in his trademark scholarly manner (Gargash holds a PhD from Cambridge.) He recommended the new administration work to:

--Support your friends: Gargash said this might seem self-evident, but as the DP World controversy in 2006 had made clear in the UAE, the definition of "friend" could be subject to political winds. He said that the USG should work to bolster the positive changes in the region that the UAE and Dubai were working to foster.

--Minimize the rhetoric, particularly that which can't be supported in reality: He urged the new USG to be very careful about its tone and language in how it addresses the region's publics. In essence, he counseled "be positive and seek not to appear belligerent, and don't write checks with statements that

can't be cashed with resources."

--Minimize the ideology: He talked at length about the generally positive view of Americans, American education, and society held on a "personal basis" by many in the Gulf, but that the "ideology of recent years has eclipsed this" in creating negative feelings about the US

--Avoid another war: He underscored that a US military conflict with Iran would have devastating effects on the region and its economy, and undermine long-term US interests throughout the region. He lamented his previous support for the US incursion into Iraq, noting, "with respect, I underestimated the challenges and overestimated the ability of the US and coalition to meet them."

--Keep the up front-burner engagement to resolve the Arab-Israeli dispute: Gargash again criticized himself for previously downplaying the centrality of the issue to regional stability, and urged the members to support the new administration following on the "stepped up US engagement of recent months. You must lead."

Comment

¶11. (U) The issue of sovereign wealth funds and private equity in general is an increasingly important component of US-UAE relations. With record oil prices leading to increasing amounts of financial liquidity - the GCC will provide an estimated 18 percent of global capital exports in 2008 - private equity will continue to be an important investment vehicle for governments in the region. Dubai will be less directly affected by the increased oil liquidity, but inflows of private equity will nonetheless remain an important component of Dubai's international investment strategy.

¶12. (U) Codel Gutierrez did not clear this message.
SUTPHIN